

McGladrey & Pullen

Certified Public Accountants

State of Illinois Illinois Finance Authority

Compliance Examination
(In Accordance with the Single Audit Act
and OMB Circular A-133)
For the Year Ended June 30, 2007

Performed as Special Assistant Auditors
For the Auditor General, State of Illinois

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State of Illinois
Illinois Finance Authority

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Agency Officials

Executive Director	Ms. Kym Hubbard	05/21/2007 – Current
Interim Executive Director	Ms. Jill Rendleman	07/1/2006 – 05/21/2007
Chairman of the Board of Directors	Mr. David C. Gustman	
Chief Financial Officer	Mr. Jose Garcia	
Chief Administrative Officer	Mr. Stuart Boldry	
Chief Credit Officer	Mr. Steven Trout	
Board Member	William Barclay	06/12/2007 – Current
Board Member	Magda Boyles	
Board Member	Ronald E. DeNard	
Board Member	James J. Fuentes	
Board Member	Michael W. Goetz	
Board Member	Dr. Roger D. Herrin	
Board Member	Edward H. Leonard, Sr.	
Board Member	Terrance M. O'Brien	
Board Member	Andrew W. Rice	
Board Member	Juan B. Rivera	
Board Member	Lynn F. Talbott	
Board Member	Joseph P. Valenti	
Board Member	April Verrett	09/20/2007 – Current
Board Member	Bradley A. Zeller	

Authority offices are located at:

Chicago Office

180 N. Stetson Avenue, Suite 2555
Chicago, Illinois 60601

Mount Vernon Office

2929 Broadway Street # 7B
Mount Vernon, Illinois 62864

Springfield Office

427 E. Monroe Street, Suite 202
Springfield, Illinois 62701

Peoria Office

124 S.W. Adams Street, Suite 300
Peoria, Illinois 61602

Carbondale Office

150 E. Pleasant Hill Road
Carbondale, Illinois 62901



180 North Stetson Ave.
Suite 2555
Chicago, IL 60601
312-651-1300
312-651-1350 fax
www.il-fa.com

Governor, Rod R. Blagojevich
Executive Director, Kym M. Hubbard

MANAGEMENT ASSERTION LETTER

May 5, 2008

McGladrey & Pullen, LLP
Certified Public Accountants
20 North Martingale Road Suite 500
Schaumburg, Illinois 60173

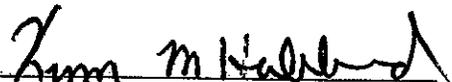
Ladies and Gentlemen:

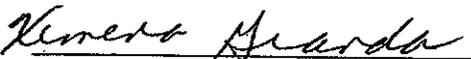
We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grant agreements that could have a material effect on the operations of the Authority. We are responsible for and we have established and maintained an effective system of, internal controls over compliance requirements. We have performed an evaluation of the Authority's compliance with the following assertions during the year ended June 30, 2007. Based on this evaluation, we assert that during the year ended June 30, 2007, the Authority has materially complied with the assertions below.

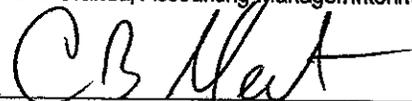
- A. The Authority has obligated, expended, received and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The Authority has obligated, expended, received and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.
- C. The Authority has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. The State revenues and receipts collected by the Authority are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.
- E. The money or negotiable securities or similar assets handled by the Authority on behalf of the State or held in trust by the Authority have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate and in accordance with law.

Yours very truly,

ILLINOIS FINANCE AUTHORITY


Kym Hubbard, Executive Director


Ximena Granda, Accounting Manager/Interim Treasurer


Chris Meister, Legal Counsel

COMPLIANCE REPORT

SUMMARY

The compliance testing performed during this examination was conducted in accordance with *Government Auditing Standards* and in accordance with the Illinois State Auditing Act.

ACCOUNTANTS' REPORTS

The Independent Accountants' Report on State Compliance, on Internal Control Over Compliance and on Supplementary Information for State Compliance Purposes does not contain scope limitations, disclaimers, or other significant non-standard language.

SUMMARY OF FINDINGS

<u>Number of</u>	<u>Compliance</u>	<u>Financial</u>	<u>Prior Compliance</u>
<u>Findings</u>	<u>Report</u>	<u>Report</u>	<u>Report</u>
Findings	8	0	7
Repeated findings	1	0	2
Prior recommendations implemented or not repeated	6	0	6

Details of Federal and State Compliance findings are presented in the separately tabbed report section of this report.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

<u>Item No.</u>	<u>Page</u>	<u>Description</u>
FINDINGS AND QUESTIONED COSTS (FEDERAL COMPLIANCE)		
07-01	12	Missing Policy on Nondiscrimination
FINDINGS (STATE COMPLIANCE)		
07-02	13	Failure to Report Revenue Bond Information to the Illinois Office of the Comptroller
07-03	14	Bad-Debts not Referred to the Illinois Office of the Comptroller's Offset System
07-04	15	Noncompliance with the Illinois Procurement Code and SAMS Procedures

State of Illinois
Illinois Finance Authority

Compliance Examination
For the Year Ended June 30, 2007

SUMMARY OF FINDINGS (Continued)

07-05	16	Lack of Segregation of Duties in Managing Property and Equipment
07-06	17	No Established Rules to Administer Loan Programs
07-07	18	Authority is Not a Member of the Illinois Forestry Development Council
07-08	19	Failure to Administer the Exporter Award Program

PRIOR FINDINGS NOT REPEATED (STATE COMPLIANCE)

07-09	20	Noncompliance with the Personnel Code – Incentive Based Compensation
07-10	20	Missing and Incomplete Documents in State Guaranteed Agriculture Loans
07-11	20	Contract Not Executed Timely
07-12	20	Approval of Incomplete Travel and Marketing Reimbursement Forms
07-13	21	Inadequate Processing and Untimely Deposit of Cash Receipts and Refunds
07-14	21	Missing Documents from Personnel File

State of Illinois
Illinois Finance Authority

Compliance Examination
For the Year Ended June 30, 2007

EXIT CONFERENCE

The findings and recommendations appearing in this report were discussed with Agency personnel at an exit conference on April 1, 2008. Attending were:

ILLINOIS FINANCE AUTHORITY

Kym Hubbard, Executive Director
Chris Meister, Legal Counsel
Ximena Granda, Accounting Manager
Jeff Pruyn, Accounting Consultant

AUDITOR GENERAL

Jon Fox, Audit Manager

MCGLADREY & PULLEN, LLP

Sean Hickey, Manager
Joe Evans, Partner

Responses to the recommendations were provided by Ximena Granda in a letter dated April 11, 2008.

McGladrey & Pullen

Certified Public Accountants

Independent Accountants' Report on State Compliance, on Internal Control Over Compliance, and on Supplementary Information for State Compliance Purposes

Honorable William G. Holland
Auditor General
State of Illinois
and

Mr. William A. Brandt, Jr.
Honorable Chairman of the Board of Directors
Illinois Finance Authority

Compliance

As Special Assistant Auditors for the Auditor General, we have examined the State of Illinois, Illinois Finance Authority's compliance with the requirements listed below, as more fully described in the Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies (Audit Guide) as adopted by the Auditor General, during the year ended June 30, 2007. The management of the State of Illinois, Illinois Finance Authority is responsible for compliance with these requirements. Our responsibility is to express an opinion on the State of Illinois, Illinois Finance Authority's compliance based on our examination.

- A. The State of Illinois, Illinois Finance Authority has obligated, expended, received, and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The State of Illinois, Illinois Finance Authority has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.
- C. The State of Illinois, Illinois Finance Authority has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. State revenues and receipts collected by the State of Illinois, Illinois Finance Authority are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.
- E. Money or negotiable securities or similar assets handled by the State of Illinois, Illinois Finance Authority on behalf of the State or held in trust by the State of Illinois, Illinois Finance Authority have been properly and legally administered and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants; the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States; the Illinois State Auditing Act (Act); and the Audit Guide as adopted by the Auditor General pursuant to the Act; and, accordingly, included examining, on a test basis, evidence about the State of Illinois, Illinois Finance Authority's compliance with those requirements listed in the first paragraph of this report and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the State of Illinois, Illinois Finance Authority's compliance with specified requirements.

In our opinion, the State of Illinois, Illinois Finance Authority complied, in all material respects, with the requirements listed in the first paragraph of this report during the year ended June 30, 2007. However, the results of our procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which are described in the accompanying schedule of findings and questioned costs as findings 07-02, 07-03, 07-04, 07-05, 07-06, 07-07, and 07-08.

As required by the Audit Guide, immaterial findings relating to instances of noncompliance excluded from this report have been reported in a separate letter to your office.

Internal Control

The management of the State of Illinois, Illinois Finance Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements listed in the first paragraph of this report. In planning and performing our examination, we considered the State of Illinois, Illinois Finance Authority's internal control over compliance with the requirements listed in the first paragraph of this report in order to determine our examination procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Audit Guide, issued by the Illinois Office of the Auditor General, but not for the purpose of expressing an opinion on the effectiveness of the State of Illinois, Illinois Finance Authority's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State of Illinois, Illinois Finance Authority's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with the requirements listed in the first paragraph of this report on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to comply with the requirements listed in the first paragraph of this report such that there is more than a remote likelihood that noncompliance with a requirement that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as findings 07-02, 07-03, 07-04, 07-05, 07-06, 07-07, and 07-08 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that a material noncompliance with a requirement listed in the first paragraph of this report will not be prevented or detected by the entity's internal control. We did not consider any of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

The State of Illinois, Illinois Finance Authority's responses to the findings identified in our examination are described in the accompanying schedule of findings and questioned costs. We did not examine the State of Illinois, Illinois Finance Authority's responses and, accordingly, we express no opinion on them.

As required by the Audit Guide, immaterial findings relating to internal control deficiencies excluded from this report have been reported in a separate letter to your office.

Supplementary Information for State Compliance Purposes

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of each major fund, and the aggregate remaining fund information of the State of Illinois, Illinois Finance Authority as of and for the year ended June 30, 2007, which collectively comprise the State of Illinois, Illinois Finance Authority's basic financial statements, and have issued our report thereon dated January 25, 2008. The accompanying supplementary information, as listed in the table of contents as Supplementary Information for State Compliance Purposes, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the State of Illinois, Illinois Finance Authority. The 2007 Supplementary Information for State Compliance Purposes, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements for the year ended June 30, 2007, taken as a whole. We have also previously audited, in accordance with auditing standards generally accepted in the United States, the State of Illinois, Illinois Finance Authority's basic financial statements for the years ended June 30, 2006 and June 30, 2005. In our reports dated December 7, 2006 and November 30, 2005, we expressed unqualified opinions on the respective financial statements of each major fund, and the aggregate remaining fund information. In our opinion, the 2006 and 2005 Supplementary Information for State Compliance Purposes, except for the portion marked "unaudited" is fairly stated in all material respects in relation to the basic financial statements for the years ended June 30, 2006 and June 30, 2005, taken as a whole.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, the Board of Directors, agency management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey & Pullen, LLP

Schaumburg, Illinois
May 5, 2008

McGladrey & Pullen

Certified Public Accountants

Report On Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133

Honorable William G. Holland
Auditor General
State of Illinois
and
Mr. William A. Brandt, Jr.
Honorable Chairman of the Board of Directors
Illinois Finance Authority

Compliance

We have audited the compliance of the State of Illinois, Illinois Finance Authority with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. The State of Illinois, Illinois Finance Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the State of Illinois, Illinois Finance Authority's management. Our responsibility is to express an opinion on the State of Illinois, Illinois Finance Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State of Illinois, Illinois Finance Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the State of Illinois, Illinois Finance Authority's compliance with those requirements.

In our opinion, the State of Illinois, Illinois Finance Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as finding 07-01.

Internal Control Over Compliance

The management of the State of Illinois, Illinois Finance Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the State of Illinois, Illinois Finance Authority's internal

control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State of Illinois, Illinois Finance Authority's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as finding 07-01 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider the deficiency described in the accompanying schedule of findings and questioned costs to be material weakness.

The State of Illinois, Illinois Finance Authority's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the State of Illinois, Illinois Finance Authority's response and, accordingly, we express no opinion on it.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of each major fund, and the aggregate remaining fund information of the State of Illinois, Illinois Finance Authority as of and for the year ended June 30, 2007, and have issued our report thereon dated January 25, 2008. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the State of Illinois, Illinois Finance Authority's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, the Board of Directors, agency management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey & Pullen, LLP

Schaumburg, Illinois
May 5, 2008

State of Illinois
 Illinois Finance Authority

Compliance Examination
 For the Year Ended June 30, 2007

Schedule of Findings and Questioned Costs
 Summary of Auditor's Results

Financial Statements

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ Yes X None reported
- Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? X Yes _____ None reported

Type of auditors' report issued on compliance for major programs:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?

 X Yes _____ No

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

10.438

Section 538 Rural Rental
 Housing Guaranteed Loans

Dollar threshold used to distinguish between type A and type B programs:

 \$ 300,000

Auditee qualified as low-risk auditee?

_____ Yes X No

CURRENT FINDINGS – FEDERAL COMPLIANCE

Finding # 07-01 Missing Policy on Nondiscrimination

Federal Agency: U.S. Department of Agriculture Section 538 Rural Rental Housing
Guaranteed Loans
Program Title: Rural Development Revolving Loan Fund
CFDA #: 10.438
Questioned costs: None

The Authority did not have a policy to comply with the Farmers Home Administration program requirements for nondiscrimination.

During our testing of compliance with the Farmers Home Administration program, we noted the Authority did not have a formal policy to notify applicants of the requirements for nondiscrimination. Also, during our detailed testing of both loans made under the program during the current fiscal year totaling \$317,000, we noted the application for the loans did not disclose the nondiscrimination requirements.

The Farmers Home Administration program guidelines Section 4274.337(c) sets equal opportunity and nondiscrimination requirements for the intermediary, which applies to the Authority. The Authority can not discriminate on the basis of sex, marital status, race, color, religion, national origin, age, physical illness or mental illness.

Authority management stated they were unaware of this requirement due to an oversight in the administration of the program.

Failure to notify applicants regarding the nondiscrimination practices may prevent applicants from applying for loans. Also, failure to comply with the program requirements may disqualify the Authority from making loans in the future. (Finding Code No. 07-01)

Recommendation

We recommend that the Authority implement a formal policy against discrimination that will inform applicants that the Authority does not discriminate based on the requirements of the program.

Authority Response

The Authority accepts the auditor's recommendation. The Authority will revise its policies and applications for this program to ensure that all future applicants of this program are notified of the nondiscrimination requirements.

CURRENT FINDINGS – STATE COMPLIANCE

Finding # 07-02 Failure to Report Revenue Bond Information to the Illinois Office of the Comptroller

The Authority did not report required revenue bond information to the Illinois Office of the Comptroller.

During the fiscal year ended June 30, 2007, the total outstanding balance of conduit debt that was in the care of the Authority was \$21.3 billion.

The Comptroller's office reported 184 delinquencies while the Authority had 20 delinquencies on its records. During our detailed testing, we selected 54 samples of delinquent records from the Comptroller's listing. We noted that 14 (26%) notices were not submitted timely. We also selected 27 newly issued bonds for compliance. We noted that 2 out of 27 (7%) bond transcripts did not match the repayment schedules on the "Bond Interest and Redemption Schedule" form C-05 reported to the Comptroller. The bond transcript is the document that specifies that actual repayment schedule for the bonds.

Section 31.30.10 of the Statewide Accounting Management System (SAMS) requires that a copy of the prospectus and maturity schedule be submitted by the agency that issued the revenue bonds within 30 days subsequent to the closing date, or the beginning date of borrowing, whichever is later, to the Comptroller. In addition, section 31.30.20 of the SAMS manual requires a Notice of Payment to be submitted within 30 days from the date the voucher is processed for payment, or within 15 days from the Agency's receipt of the trustee's monthly statement.

Authority management stated that the discrepancy is due to the Authority personnel preparing the form C-05 based on the bond agreement and not the actual bond transcript.

By not providing information on new revenue bonds issued and the dates and amount of principal payments made to the Comptroller, it inhibits the Comptroller from performing its responsibilities to record and monitor State debt. (Finding Code No. 07-02, 06-02, 05-03).

Recommendation

We recommend the Authority review its procedures to ensure that the information submitted to the Comptroller's office for newly issued bonds is submitted timely and that the information is accurate. Further, the Authority should ensure that the Notice of Payment forms are submitted to the Comptroller's office timely.

Authority Response

The Authority accepts the auditor's recommendation. In order to file the maturity schedule with the Office of the Comptroller within 30 days subsequent to the closing date, which is required, the Authority has to rely on the bond information provided by outside parties. The bond transcript is usually not available to the Authority until 60 to 90 days after a bond closing. The Authority is currently reviewing ways to strengthen its policies to ensure that repayment schedules reported to the Comptroller match the bond transcripts. In addition the Authority will increase the frequency of correspondence with the Comptroller's Office and its bond trustees from annually to quarterly to improve the accuracy and timeliness of the required revenue bond reporting.

State of Illinois
Illinois Finance Authority

Compliance Examination
For the Year Ended June 30, 2007

CURRENT FINDINGS – STATE COMPLIANCE

Finding # 07-03 Bad-Debts not Referred to the Illinois Office of the Comptroller's Offset System

The Authority did not refer bad debts to the Illinois Office of the Comptroller's offset system.

While reviewing the Authority's policy for delinquent debts, we noted the Authority did not utilize the Comptroller's offset system for delinquent debts as required by SAMS procedures. The Authority had \$293,645 in delinquent debts that should have been submitted to the Comptroller's offset system.

SAMS Procedure 26.40.20 states that bad debts over \$1,000 and more than 90 days past-due should be referred to the Comptroller's offset system. The offset system enables the Comptroller to ascertain if delinquent vendors are owed state funds, and to deduct the delinquent debt from the owed amount.

Authority Management stated that they were unaware of this requirement.

Not using the Comptroller's offset system could result in payment of state funds to a borrower that has a delinquent debt with the Authority. (Finding Code No. 07-03).

Recommendation

We recommend that the Authority refer delinquent debts to the Comptroller's offset system in accordance with SAMS procedures.

Authority Response

The Authority accepts the auditor's recommendation. The Authority is currently in the process of establishing procedures to ensure that all bad debts over \$1,000 and more than 90 days past-due are referred to the Comptroller's offset system. Borrowers will be notified in writing and/or verbally when debt balances are 60 days past due. This will assure that accurate information is referred to the Comptroller's Office within the 90 day time period.

State of Illinois
Illinois Finance Authority

Compliance Examination
For the Year Ended June 30, 2007

CURRENT FINDINGS – STATE COMPLIANCE

Finding # 07-04 Noncompliance with the Illinois Procurement Code and SAMS Procedures

The Authority did not publish its contracts in the Illinois Procurement Bulletin and did not file Real Estate Lease Disclosure forms with the Illinois Office of the Comptroller.

We reviewed all 25 contracts entered into by the Authority for fiscal year 2007. We noted that 7 (28%) of the contracts totaling \$129,435 were not published in the Illinois Procurement Bulletin. The Authority was also unable to locate the disclosures of financial interest statements for these 7 contracts.

We also reviewed all lease agreements. We noted the following exceptions:

- The Authority did not file the Real Estate Lease Disclosure form for all seven leases examined; and
- for 1 of 7 leases the Authority paid parking expenditures of \$24 during the year that was in excess of the rent specified in the lease agreement.

The Illinois Procurement Code (30 ILCS 500/15-25) (Code) states that notice of each and every contract that is offered, including renegotiated contracts and change orders, shall be published in the Illinois Procurement Bulletin. The Code (30 ILCS 500/50-35) also requires all responsive bidders or offerors to make certain disclosures of financial interest and potential conflicts of interests as specified in the Code.

SAMS Procedure 15.20.40 states that agencies must file a Real Property Lease Purchase – Lease Disclosure Document each time a multi-year real property lease/installment purchase agreement is initiated. Good internal controls require the Authority pay only the rent specified in the lease agreement.

Authority officials stated the failure to publish the seven contracts in the Illinois Procurement Bulletin and the failure to file the Real Estate Disclosure forms with the Comptroller was due to oversight. The exception noted for the expenditures was due to parking fees charged by the lessee. The Authority has since updated the lease agreement.

The lack of compliance with State statute and SAMS procedures undermines the principle of accountability through public disclosure. (Finding Code No. 07-04).

Recommendation

We recommend that the Authority publish all its contracts in the Illinois Procurement Bulletin in order to comply with the Act. In addition, we recommend that the Authority file its leases with the Comptroller and submit the required lease forms.

Authority Response

The Authority accepts the auditor's recommendation. The Authority will comply with the Illinois Procurement Code and file the Real Estate Lease Disclosure forms with the Illinois Office of the Comptroller.

CURRENT FINDINGS – STATE COMPLIANCE

Finding # 07-05 Lack of Segregation of Duties in Managing Property and Equipment

The Authority did not properly segregate the duties of managing its property and equipment.

The Authority maintains property with a cost, net of depreciation of \$260,507 at June 30, 2007. We noted that the employee responsible for maintaining the equipment listing was also the person in charge of the annual property and equipment inventory. The Authority has since segregated these two functions.

Good internal controls require that personnel responsible for maintaining the property and equipment records be independent of the person taking the annual physical inventory of property and equipment.

Authority personnel stated that the annual inventory is the CFO's responsibility or his designee. The CFO delegated the responsibility to the IT Manager, who was also responsible for maintaining the equipment records.

A lack of a proper segregation of duties could result in the loss of Authority assets going undetected. (Finding Code No. 07-05).

Recommendation

We recommend that the Authority segregate the recordkeeping and physical inventory functions over property and equipment.

Authority Response

The Authority has implemented the auditor's recommendation.

CURRENT FINDINGS – STATE COMPLIANCE

Finding # 07-06 No Established Rules to Administer Loan Programs

The Authority has not adopted rules for the ambulance revolving loan program and the fire sprinkler dormitory revolving loan program.

The Illinois Finance Authority Act (20 ILCS 3501/825-85) effective June 5, 2006 states that the Authority and the State Fire Marshal shall jointly administer an ambulance revolving loan program to provide zero-interest loans for the purchase of ambulances by a fire department, a fire protection district, a township fire department, or a non-profit ambulance service. The Illinois Finance Act further states that the Authority and the State Fire Marshal shall adopt rules to administer the program.

The Fire Sprinkler Dormitory Act (110 ILCS 47/15) effective January 1, 2005 states that the Authority and the State Fire Marshal shall jointly administer a fire sprinkler dormitory revolving loan program to provide low-interest loans for the installation of fire sprinkler systems in college dormitories to post-secondary educational institutions. The Fire Sprinkler Dormitory Act (110 ILCS 47/25) further states that the Authority and the State Fire Marshal shall adopt rules to administer the revolving loan program.

As of June 30, 2007, the Authority had not adopted rules to administer the ambulance revolving loan program nor has it adopted rules to administer the fire sprinkler dormitory loan program. No appropriation was requested by the Authority for either program in fiscal year 2007 and neither of these programs were appropriated funds in fiscal year 2007.

Authority management stated that no rules have been adopted since the funds have not received any appropriation.

The lack of established rules could result in a delay of implementing the program once the fund receives an appropriation. (Finding Code No. 07-06).

Recommendation

We recommend that the Authority prepare rules to administer the ambulance revolving loan program and the fire sprinkler dormitory revolving loan program.

Authority Response

The Authority accepts the auditor's recommendation. The Authority will work with the State Fire Marshal to prepare rules to administer the two programs.

State of Illinois
Illinois Finance Authority

Compliance Examination
For the Year Ended June 30, 2007

CURRENT FINDINGS – STATE COMPLIANCE

Finding # 07-07 Authority is Not a Member of the Illinois Forestry Development Council

The Executive Director of the Authority, or his/her designee, is not a member of the Illinois Forestry Development Council.

The Illinois Forestry Development Act (525 ILCS 15/6a) effective July 16, 1999 requires that the Executive Director of the Authority, or her designee, be a member of the Council, along with 23 other members. The Council shall study and evaluate the forestry resources and forestry industry of Illinois including economic development and management opportunities. Results of the Council's study shall be reported to the General Assembly no later than July 1 of each year.

There was no record of the Executive Director or her designee attending any meetings of the Illinois Forestry Council during fiscal year 2007.

Authority management stated that the Act was applicable to the Farm Development Authority (FDA). Upon succession of the Authority, the Executive Director of the FDA did not notify the Authority of this requirement nor did the Director appoint a designee.

Not participating in the Council could result in missing the economic development opportunities presented by the State's forestry resources for the Authority and the State of Illinois. (Finding Code No. 07-07)

Recommendation

We recommend that the Authority assign a designee to be a member of the council and attend meetings as required.

Authority Response

The Authority accepts the auditor's recommendation. The Authority has appointed an IFA designee to be a member of the Illinois Forestry Development Council and attend council meetings as required.

State of Illinois
Illinois Finance Authority

Compliance Examination
For the Year Ended June 30, 2007

CURRENT FINDINGS – STATE COMPLIANCE

Finding # 07-08 Failure to Administer the Exporter Award Program

The Authority failed to operate an annual awards program for Illinois-based exporters during the examination period.

The Illinois Civil Administrative Code (20 ILCS 605/605-675) states that the Authority shall cooperate with the Department of Agriculture and the Department of Commerce and Economic Opportunity to establish and operate an annual awards program to recognize Illinois-based exporters.

During the fiscal year ended 2007, the Authority did not participate in establishing an Exporter Award Program as required by the statute. According to the *World Institute for Strategic Economic Research* website (www.wisertrade.org), Illinois exports for calendar year 2006 totaled \$42 billion.

Authority management stated that they were unaware of this requirement since the statute is specific to the Department of Commerce and Economic Opportunity.

An awards program to recognize Illinois-based exporters encourages the growth of exports of Illinois products around the world. Failure to administer the program hinders efforts to promote exports from the State of Illinois. (Finding Code No. 07-08).

Recommendation

We recommend that the Authority work with the other agencies as required to operate the annual awards program.

Authority Response

The Authority accepts the auditor's recommendation. The Authority has had discussions with the Department of Commerce and Economic Opportunity regarding this awards program and will work closely with the Department of Agriculture and Department of Commerce and Economic Opportunity to operate the annual awards program.

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Illinois Finance Authority

Compliance Examination
For the Year Ended June 30, 2007

PRIOR FINDINGS NOT REPEATED – STATE COMPLIANCE

Finding # 07-09 Noncompliance with the Personnel Code – Incentive Based Compensation

In prior fiscal year, the Authority paid employees \$289,149 under an incentive-based compensation plan that was not allowable under the Personnel Code. The Authority believed that it was exempt from the Personnel Code. We recommended that the Authority obtain an opinion from the Attorney General to determine if the Authority was exempt from the Personnel Code. (Finding Code No. 06-01)

During the current fiscal year, the Attorney General issued a letter to the Authority that stated that it was not authorized to issue an opinion in response to the Authority's request.

Finding # 07-10 Missing and Incomplete Documents in State Guaranteed Agriculture Loans

In the prior year's examination, the Authority did not have all the required documents for State Guaranteed Agriculture Loans. (Finding Code No. 06-03).

During the current examination period, our sample testing of State Guaranteed Agricultural Loan files did not disclose any missing required documents.

Finding # 07-11 Contract Not Executed Timely

In the prior year's examination, the Authority did not timely execute a contract or timely file an emergency purchase affidavit for legal services totaling \$807,470 procured under the emergency purchase exception. (Finding Code No. 06-04)

During the current year examination period, our sample testing did not disclose any contracts which were not executed timely. Further, no emergency purchases were made by the Authority during the examination period.

Finding #07-12 Approval of Incomplete Travel and Marketing Reimbursement Forms

In the prior year's examination, the Authority approved and reimbursed incomplete travel and marketing reimbursement forms. (Finding Code No. 06-05)

During the current examination period, our sample testing indicated controls over travel and marketing reimbursements improved; therefore the finding is not repeated.

State of Illinois
Illinois Finance Authority

Compliance Examination
For the Year Ended June 30, 2007

PRIOR FINDINGS NOT REPEATED – STATE COMPLIANCE (Continued)

Finding #07-13 Inadequate Processing and Untimely Deposit of Cash Receipts and Refunds

In the prior year's examination, the Authority did not adequately process or timely deposit cash receipts or refunds. (Finding Code No. 06-06)

During the current examination period, our sample testing indicated the timeliness of depositing cash receipts and refunds improved; therefore the finding is not repeated. Results of our current year testing are discussed further in Finding IM07-02 in the Report of Immaterial Findings.

Finding # 07-14 Missing Documents from Personnel File

In prior year's examination, the Authority lacked various required documents in the personnel files of some of its employees. Some of the documents missing were: job descriptions, an Educational Loan Certification, a Direct Deposit Authorization form, and a Director's approval of flexible working hours. (Finding Code No. 06-07)

During the current examination period, we reviewed all personnel files and noted that the files contained all of the necessary documents.

SUPPLEMENTARY INFORMATION FOR STATE COMPLIANCE PURPOSES

SUMMARY

Supplementary Information for State Compliance Purposes presented in this section of the report includes the following:

- Fiscal Schedules and Analysis:
 - Schedule of Expenditures of Federal Awards
 - Notes to the Schedule of Expenditures of Federal Awards
 - Schedule of Appropriations, Expenditures and Lapsed Balances
 - Comparative Schedule of Net Appropriations, Expenditures and Lapsed Balances
 - Comparative Schedule of Revenues and Expenses
 - Schedule of Changes in State Property
 - Reconciliation Schedule of Cash Receipts to Deposits Remitted to the State Comptroller
 - Analysis of Significant Variations in Expenses
 - Analysis of Significant Variations in Revenues
 - Analysis of Significant Lapse Period Spending
 - Analysis of Significant Account Balances
 - Analysis of Accounts Receivable
 - Schedule of Cash Funds and Depositories
 - Schedule of Investments
 - Schedule of Contracts
 - Schedule of Conduit Debt

- Analysis of Operations:
 - Agency Functions and Planning Program
 - Employee Compensation Plan
 - Average Number of Employees
 - Ten-Year Schedule of Jobs Created or Retained by Loans, Revenue Bonds, and Investments Made by the Authority (Unaudited)
 - Summary of Agriculture and Fire Truck Loan Programs:
 - Agricultural Development Bonds
 - State Guarantee Program for Restructuring Agricultural Debt
 - Farmer and Agri-Business Loan Guarantee Program
 - Young Farmer Loan Guarantee Program
 - Specialized Livestock Loan Guarantee Program
 - Fire Truck Revolving Loan Program
 - Historical Summary of Agricultural Loans Issued by Program by County (Unaudited)
 - Service Efforts and Accomplishments (Unaudited)

The accountants' report that covers the Supplementary Information for State Compliance Purposes presented in the Compliance Report Section states that it has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in the accountants' opinion, except for that portion marked "unaudited," on which they express no opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

State of Illinois
 Illinois Finance Authority

Compliance Examination
 Schedule of Expenditures of Federal Awards
 For the Year Ended June 30, 2007

Federal Grant/Program Title	Federal CFDA Number	Project Number	Program or Award Amount	Grant Proceeds	Program Loan Outstanding	Federal Portion of Interest/ Other Income	Expenditures
U.S. Department of Commerce:							
Commerce and Economic Opportunity							
Economic Adjustment Assistance							
Grant (Title IX)	11.011	06-19-01916	\$ 424,000	\$ -	\$ 91,484	\$ -	\$ -
U.S. Department of Agriculture:							
Section 538 Rural Rental							
Housing Guaranteed Loans	10.438		\$ 1,500,000	\$ -	\$ 454,971	\$ 29,951	\$ 110,138
Total			\$ 1,924,000	\$ -	\$ 546,455	\$ 29,951	\$ 110,138

See Notes to Schedule of Expenditures of Federal Awards.

Notes to Schedule of Expenditures of Federal Awards

Note 1. Organization

The Illinois Finance Authority (the Authority) is a body politic and corporate created July 17, 2003 by Public Act 93-205, effective January 1, 2004. Public Act 93-205 consolidated seven of the State's existing finance authorities into the Authority. The Authority succeeded to the rights and duties of the existing finance authorities as of January 1, 2004. Public Act 93-205 also repealed existing finance authorities' authorizing legislation. The mission of the Authority is statutorily defined as follows (20 ILCS 3501/801 et seq.):

The mission of the Illinois Finance Authority is to foster economic development to the public and private institutions that create and retain jobs, and improve the quality of life in Illinois by providing access to capital.

The Authority sponsors a variety of lending programs including direct lending and direct lending participation loans. The Authority also makes loans through its two federal programs, the Economic Development Administration (E.D.A.) Title IX Revolving Loan Program and the Rural Development Revolving Loan Program.

The Schedule of Expenditures of Federal Awards includes federal programs related to the following agencies:

U.S. Department of Commerce
U.S. Department of Agriculture

Note 2. Summary of Significant Accounting Policies

Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of measurements made, regardless of the measurement focus applied.

The Schedule of Expenditures of Federal Awards is prepared using the accrual basis of accounting. Under the accrual basis of accounting, revenues and expenditures are recognized when incurred.

Terms of Agreements

The E.D.A. Title IX Revolving Loan Program

The E.D.A. Title IX Restricted Revolving Loan Program provides low-cost supplemental financing to manufacturing companies located in areas declared eligible for Title IX assistance by the E.D.A. Loans under this program are up to \$100,000 for small and mid-sized manufacturers, and carry a fixed interest rate of 7.5% with maturity dates up to ten years. Total loans outstanding as of June 30, 2007 were \$91,484. The E.D.A. Title IX Restricted Revolving loans are fully reserved.

Notes to Schedule of Expenditures of Federal Awards (Continued)

Note 2. Summary of Significant Accounting Policies (Continued)

The Rural Development Revolving Loan Program

The Rural Development Revolving Loan Program participates with the Rural Development Administration's (the former Farmers Home Administrations') Intermediary Re-lending Program to provide loans to business facilities and community development projects in rural areas for land acquisitions, facility construction and renovation, and machinery and equipment purchases. The Authority will contribute up to 75% or \$150,000 of fixed asset costs at a 6% interest rate with maturity dates up to ten years. Total loans outstanding as of June 30, 2007 were \$454,971.

State of Illinois
 Illinois Finance Authority

Compliance Examination
 For the Year Ended June 30, 2007

Schedule of Appropriations, Expenditures and Lapsed Balances
 Appropriations for Fiscal Year 2007

Fourteen Months Ended August 31, 2007

P.A. 94-798	Appropriation (Net After Transfers)	Expenditures Through 06/30/07	Lapse Period Expenditures 07/01/07 to 08/31/07	Total Expenditures	Balances Reappropriated 07/01/2007
<u>Appropriated Funds</u>					
0572 - Fire Truck Revolving Loan Fund					
Loans to Fire Departments	\$ 1,144,371	\$ -	\$ -	\$ -	\$ 1,144,371
Total Fiscal Year 2007	\$ 1,144,371	\$ -	\$ -	\$ -	\$ 1,144,371

Note: Appropriations, expenditures and lapsed balances were obtained from Authority records and have been reconciled to records at the State Comptroller.

State of Illinois
 Illinois Finance Authority

Compliance Examination
 For the Year Ended June 30, 2007

Comparative Schedule of Net Appropriations, Expenditures and Lapsed Balances
 Years Ended June 30,

	2007 Public Act 94-798	2006 Public Act 94-0015	2005 Public Act 93-0842
0001 - General Revenue Fund			
Appropriations (Net of Transfers)	\$ -	\$ -	\$ 240,000
<u>Expenditures</u>			
Interest Buy-Back Program	-	-	27,472
Total Expenditures	-	-	27,472
Lapsed Balances	\$ -	\$ -	\$ 212,528
0572 - Fire Truck Revolving Loan Fund			
Appropriations (Net of Transfers)	\$ 1,144,371	\$ 4,932,057	\$ 10,000,000
<u>Expenditures</u>			
Loans to Fire Departments	-	4,287,686	5,067,943
Total Expenditures	-	4,287,686	5,067,943
Reappropriated Balances	\$ 1,144,371	\$ 644,371	\$ 4,932,057
0971 - Build Illinois Bond Fund			
Appropriations (Net of Transfers)	\$ -	\$ 3,800,000	\$ 10,000,000
<u>Expenditures</u>			
Transfer to Fire Truck Revolving Loan Fund	-	3,800,000	6,200,000
Total Expenditures	-	3,800,000	6,200,000
Reappropriated Balances	\$ -	\$ -	\$ 3,800,000
All Funds			
Appropriations (Net of Transfers)	\$ 1,144,371	\$ 8,732,057	\$ 20,240,000
Total Expenditures	-	8,087,686	11,295,415
Lapsed Balances	\$ -	\$ -	\$ 212,528
Reappropriated Balances	\$ 1,144,371	\$ 644,371	\$ 8,732,057

Note: The Authority did not make efficiency initiative payments during the fiscal year ended 2007

State of Illinois
 Illinois Finance Authority

Compliance Examination
 For the Year Ended June 30, 2007

Comparative Schedule of Revenues and Expenses

	2007	2006	Increase (Decrease)	% Variance
Revenues				
Administrative service fees	\$ 6,632,365	\$ 4,370,470	\$ 2,261,895	52 %
Interest on loans	3,666,594	3,591,255	75,339	2
Interest and investment income	2,793,615	2,600,275	193,340	7
Annual fees	1,154,011	1,299,441	(145,430)	(11)
Appropriations from State of Illinois	-	3,800,000	(3,800,000)	(100)
Application fees	273,400	104,670	168,730	161
Appreciation (depreciation) in fair value of investments	178,070	80,163	97,907	(122)
Bad debt recoveries	31,839	129,106	(97,267)	(75)
Miscellaneous	9,197	75,182	(65,985)	(88)
Total Revenues	14,739,091	16,050,562	(1,311,471)	(8) %
Expenses				
Employee related expenses	3,638,102	3,030,627	607,475	20 %
Interest expense	2,767,195	3,088,416	(321,221)	(10)
Professional services	2,642,074	1,782,438	859,636	48
Loan loss provision	769,039	374,089	394,950	106
Occupancy costs	467,917	416,752	51,165	12
General and administrative	410,676	360,577	50,099	14
Depreciation	54,739	33,909	20,830	61
Total Expenses	10,749,742	9,086,808	1,662,934	18
Excess of Revenues over Expenses	\$ 3,989,349	\$ 6,963,754	\$ (2,974,405)	(43) %

State of Illinois
 Illinois Finance Authority

Compliance Examination
 For the Year Ended June 30, 2007

Schedule of Changes in State Property

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007
Cost				
Capital Assets Being Depreciated:				
Leasehold Improvements	\$ 2,000	\$ -	\$ -	\$ 2,000
Furniture and Equipment	203,864	108,995	(5,500)	307,359
Computers and Software	168,126	56,582	-	224,708
Total Capital Assets Being Depreciated	<u>373,990</u>	<u>165,577</u>	<u>(5,500)</u>	<u>534,067</u>
Accumulated Depreciation				
Leasehold Improvements	2,000	-	-	2,000
Furniture and Equipment	156,433	17,574	(5,500)	168,507
Computers and Software	65,887	37,166	-	103,053
Total Accumulated Depreciation	<u>224,320</u>	<u>54,740</u>	<u>(5,500)</u>	<u>273,560</u>
Capital Assets, Net of Accumulated Depreciation	<u>\$ 149,670</u>	<u>\$ 110,837</u>	<u>\$ -</u>	<u>\$ 260,507</u>

State of Illinois
Illinois Finance Authority

Compliance Examination
For the Year Ended June 30, 2007

Reconciliation of Cash Receipts to Deposits Remitted to the State Comptroller

Illinois Agricultural Loan Guarantee Fund #994

Repayment of loan guarantees	\$ 25,091
Cash Receipts per Agency Records	25,091
Add cash in transit, beginning of period	-
Less cash in transit, end of period	-
Deposits Remitted to the Comptroller	\$ 25,091

Illinois Farmer and Agri-Business Loan Guarantee Fund #205

Repayment of loan guarantees	\$ 60,882
Cash Receipts per Agency Records	60,882
Add cash in transit, beginning of period	-
Less cash in transit, end of period	-
Deposits Remitted to the Comptroller	\$ 60,882

Fire Truck Revolving Loan Fund #572

Repayment of loans	\$ 518,722
Cash Receipts per Agency Records	518,722
Add cash in transit, beginning of period	-
Less cash in transit, end of period	-
Deposits Remitted to the Comptroller	\$ 518,722

State of Illinois
 Illinois Finance Authority

Compliance Examination
 For the Year Ended June 30, 2007

Analysis of Significant Variations in Expenses

	*	*			
	June 30, 2007	June 30, 2006	Increase (Decrease)	%	Explanation of Significant Variations (Variance of 20% and \$100,000 or more)
Employee Related Expenses	\$ 3,638,102	\$ 3,030,627	\$ 607,475	20 %	Increase due to a new employee retirement plan, increase in wages, increase in FICA wage base, and increase in the number of employees electing coverage in Group Insurance program.
Professional Services	2,642,074	1,782,438	859,636	48	Increase due to increase in legal fees.
Loan loss provision	769,039	374,089	394,950	106	Increase due to increase in A/R participation loans and other loans

** Information obtained from the Comparative Schedule of Revenues and Expenses*

State of Illinois
 Illinois Finance Authority

Compliance Examination
 For the Year Ended June 30, 2007

Analysis of Significant Variations in Revenues

	*	*			
	June 30, 2007	June 30, 2006	Increase (Decrease)	%	Explanation of Significant Variations (Variance of 20% and \$100,000 or more)
Administrative service fees	\$ 6,632,365	\$ 4,370,470	\$ 2,261,895	52	% The increase is due to an increased number of loans serviced and closed during the fiscal year.
Appropriations from the State of Illinois	-	3,800,000	(3,800,000)	(100)	Decrease is due to no appropriations received to fund the Fire Truck Revolving Loan Fund.
Application fees	273,400	104,670	168,730	161	This amount will fluctuate each year depending on the number of applications for loans received by the Authority. Due to an increased number of loan applicants received by the Authority in fiscal year 2007, the fee collected also increased.

* Information obtained from the Comparative Schedule of Revenues and Expenses

State of Illinois
Illinois Finance Authority

Compliance Examination
For the Year Ended June 30, 2007

Analysis of Significant Lapse Period Spending

There was no significant lapse period spending (20% or more of the total expenditures) made by the Authority during the examination period.

State of Illinois
Illinois Finance Authority

Compliance Examination
For the Year Ended June 30, 2007

Analysis of Significant Account Balances

Following are the account balances from the financial report with significant changes (greater than \$2 million) between June 30, 2006 and June 30, 2007

	June 30, 2007	June 30 2006	Increase (Decrease)	% Variance	Analysis of Significant Change
Assets					
Cash and Cash equivalents	\$ 41,125,776	\$ 49,920,178	\$ (8,794,402)	(18)	Decrease is due to the additional participation loans and the purchase of investments.
Investments	18,997,064	16,882,342	2,114,722	13	Increase is due to the purchase of investments in the Industrial Revenue Bond Insurance Fund that was held as cash in prior year.
Receivables, net	90,230,190	83,920,129	6,310,061	8	Increase due to additional participation loans.
Liabilities					
Long-term debt	56,178,060	60,977,906	(4,799,846)	(8)	Bonds redeem per sinking fund requirements and early extinguishment of debt.

State of Illinois
Illinois Finance Authority

Compliance Examination
For the Year Ended June 30, 2007

Analysis of Accounts Receivable

The Authority's past-due accounts receivable at June 30, 2007 totaled \$585,679. The Authority recorded an allowance for doubtful accounts of \$66,146. An aging of the past-due accounts receivable by number of days is as follows:

<u>1 - 30 Days</u>	<u>31 - 90 Days</u>	<u>Over 90 Days</u>
\$279,022	\$10,000	\$296,657

The Authority used private collection services to collect delinquent receivable balances.

State of Illinois
Illinois Finance Authority

Compliance Examination
For the Year Ended June 30, 2007

Schedule of Cash Funds and Depositories

General Operating Fund:

Banterra Bank of Marion, Illinois - Money Market	\$	402,507
LaSalle Bank in Chicago, Illinois		363,076
ABN AMRO Government Money Market		49,665
Morgan Stanley – Money Market		188,774
Fifth Third Inst MMKT Preferred		33,815
The Illinois Funds – Money Market		356,403
The Illinois Funds – Prime Fund		370,165

Industrial Revenue Bond Insurance Fund:

Banterra Bank of Marion, Illinois – Money Market		2,801,815
JP Morgan in Chicago, Illinois - Prime Money Market Fund		1,759,246
The Illinois Funds – Money Market		4,868,728

SBA MicroLoan Fund:

Banterra Bank of Marion, Illinois – Money Market		43,135
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Credit Enhancement Fund:

JP Morgan in Chicago, Illinois – Money Market		222
JP Morgan in Chicago, Illinois – Money Market		206,158
ABN AMRO Government Money Market		600,000
ABN AMRO Government Money Market		500,000
Federated Government Obligations - Tax Managed		47,000

E.D.A. Title IX Restricted Revolving Loan Fund:

Banterra Bank of Marion, Illinois – Savings		782,412
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Rural Development Revolving Loan Fund:

Banterra Bank of Marion, Illinois – Money Market		89,754
LaSalle Bank in Chicago Illinois		1,854,340

State of Illinois
Illinois Finance Authority

Compliance Examination
June 30, 2007

Schedule of Cash Funds and Depositories (Continued)

Illinois Agricultural Loan Guarantee Fund:

Illinois Treasurer's - Cash \$ 11,063,933

Bond Fund:

US Bank in Minneapolis, Minnesota - Money Market (120,681)

First American Treasury Obligations Fund 787,383

Short-Term Investments Treasury 151,787

Illinois Farmer Agribusiness Loan Guarantee Fund:

Illinois Treasurer's - Cash 8,373,955

Illinois Housing Partnership Program Fund:

The Illinois Funds - Money Market 1,823,794

IRBB Special Reserve Fund:

The Illinois Funds - Prime Fund 1,781,018

The Illinois Funds - Money Market 6,255

Fire Truck Revolving Loan Fund

Illinois Treasurer's - Cash 1,941,117

\$ 41,125,776

State of Illinois
Illinois Finance Authority

Compliance Examination
For the Year Ended June 30, 2007

Schedule of Investments

Description	Type	Interest Rate	Maturity Date	Recorded Value June 30, 2007
General Operating Fund:				
LaSalle Bank	Certificate of Deposit	3.84%	06/26/2008	\$ 85,000
Morgan Stanley – Government Securities	Pooled Investment			1,740,591
Shore Bank	Money Market	4.28%		511,535
Warren-Boynton State Bank	Certificate of Deposit	5.00%	08/09/2007	100,000
Corn Belt Bank	Certificate of Deposit	5.00%	08/09/2007	100,000
Chapin State Bank	Certificate of Deposit	4.25%	03/14/2008	100,000
BankOrion	Certificate of Deposit	4.12%	03/14/2008	100,000
State Bank of Lincoln	Certificate of Deposit	4.01%	03/14/2008	100,000
Wemple State Bank	Certificate of Deposit	4.00%	03/14/2008	100,000
Industrial Revenue Bond Insurance Fund:				
Morgan Stanley-Government Securities	Pooled Investment			1,998,445
Venture Investment Fund:				
Champaign-Urbana Fund	Venture Capital			77,852
Clearstack	Venture Capital			450,000
Firefly Energy, Inc.	Venture Capital			975,000
Harmonic Vision	Venture Capital			261,000
Jaros Technologies Corporation	Venture Capital			250,000
Illinois Arch Fund Partnership	Venture Capital			165,032
Influx, Inc. (now Protez Pharmaceuticals)	Venture Capital			148,500
Lemko Corporation	Venture Capital			300,000
Metalconforming Controls	Venture Capital			575,000
Moire, Inc.	Venture Capital			600,000
Nephrx	Venture Capital			110,000
Neuronautics	Venture Capital			300,000
Open Channel Software	Venture Capital			250,000
Smart Signal	Venture Capital			293,848
Stonewater Software	Venture Capital			4,759
Video Home Tour	Venture Capital			250,000
Zuchem, Inc.	Venture Capital			543,100
Bond Fund:				
US Bank in Minneapolis, Minnesota	Pooled Investment			8,507,402
				\$ 18,997,064

State of Illinois

Illinois Finance Authority

Compliance Examination

For the Year Ended June 30, 2007

Schedule of Contracts

Contractor	Services Provided	Total Expenses Incurred
427 E. Monroe, LLC	Office Rent - Springfield	\$ 35,573
Accountemps	Temp Services	39,787
ADP Total Source	Payroll and HR	233,886
American Business Graphics	Marketing Services	19,813
Anne M. Donahoe	Financial Advisor - Extension	19,950
Anthes, Pruyne & Associates	Accounting Services	40,936
Arthur J. Gallagher	Brokerage/Risk Management	176,957
BFPRU I, LLC	Office Rent - Chicago	266,921
Blackwell Consulting	Computer Consulting	2,080
Bloomberg, LLP	Financial Information Database	15,300
Burke Burns & Pinelli	Issuers Counsel	66,378
CBIZ Information Systems	Computer Systems	55,686
CCC Technologies, Inc.	Telephone Hardware Maintenance	5,721
Chicago Office Technology Group	Copy Machine Repair	3,819
Crowe Chizek	Professional - Accounting	1,758
DA Davidson	Senior Financial Advisor	155,000
Data Tel Communications	Telecommunications Provider	16,991
Deloitte Consulting LLP	Professional - Accounting	20,000
Distant Horizon	Website Services	836
DLS Internet Services	Chicago Internet Access	6,256
Dykema Gossett Law Offices	Legal	94,288
Envision Design	Professional - Marketing	3,200
Franzek & Sullivan	Legal	26,468
Gannarelli Graphics	Professional - Marketing	1,675
GE Capital	Copier Lease	32,984
Harper Graphics	Professional - Marketing	2,844
Howard Kenner Governmental Consulting	Professional - Consulting	84,750
Innovations, Ltd. (ACT & IT Services)	Contact Management	717
Jones Day	Professional - Consulting	12,778
Katten Muchin Zavis Rosenman	Legal	10,888
Klatt Employment Services	Temp Services	60,123
Kutchins Robbins & Diamond	Valuation Services	1,750
Laner Muchin	Legal Services - 457 Plan	76,358
Mabsco Capital	Loan Management Services	115,725
Manpower	HR Recruitment	2,946
Mayer, Brown, Rowe & Maw LLP	Legal	56,201
McGuire Woods, LLP	Legal	77,024
Nimlok Chicago	Professional - Marketing	560
Paetec Communications	Telecommunications Provider	19,420
Pitney Bowes	Mail Services	7,889
Prisim Enterprises, LLC	Marketing Services	9,744
Rider Dickerson, Inc.	Printing Services	10,490
Schiff Hardin & Waite	Legal Services	5,978
Scott Balice Strategies	Senior Financial Advisor	55,625
Shesky & Froelich Ltd.	Legal Services	1,151,120
Shred-it	Document Disposal Services	1,276
Southern Illinois University	Office Rent - Carbondale	4,320
Sterling Network	Professional - Network	4,640
Stern Bros. Renewable Energy Finance	Consulting - Renewable Energy	9,990
Swanson Property Mgmt.	Office Rent - Mt. Vernon	11,720
The Heartland Partnership	Office Rent - Peoria	5,103
Welsh & Katz, Ltd	Legal	4,474
	Total	<u>\$ 3,146,716</u>

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Schedule of Conduit Debt

	Principal Outstanding	Number of Issues Outstanding
Illinois Finance Authority		
Revenue Bonds	\$ 8,288,496,000	331
Clean Water State Revolving Fund	110,080,000	1
Environmental Bonds	223,233,000	8
Notes	122,746,000	7
Total Illinois Finance Authority	<u>8,744,555,000</u>	<u>347</u>
Predecessor Authorities		
Illinois Development Finance Authority		
Total 501(c)3 Not-for-Profit Bonds and Leases	2,259,244,000	154
Total Environmental Bonds	1,070,760,000	36
Total Clean Water State Revolving Fund	110,800,000	1
Total Industrial Revenue Bonds	722,492,000	121
Total Infrastructure Bonds	659,534,000	43
Total Housing Bonds	207,512,000	19
Total Leases, Notes and Certificates of Participation	30,835,000	6
Total Distressed Bonds	7,710,000	1
Total Illinois Development Finance Authority	<u>5,068,887,000</u>	<u>381</u>
Illinois Health Facilities Authority	5,564,476,000	199
Illinois Educational Facilities Authority	2,128,630,000	76
Illinois Farm Development Authority	80,737,000	23
Illinois Rural Bond Bank	51,065,000	32
Total Predecessor Authorities	<u>12,893,795,000</u>	<u>711</u>
Grand Total Illinois Finance Authority	<u><u>\$ 21,638,350,000</u></u>	<u><u>1,058</u></u>

**State of Illinois
Illinois Finance Authority**

**Compliance Examination
For the Year Ended June 30, 2007**

Authority Functions and Planning Program

The Authority maintains offices at 180 North Stetson Avenue, Suite 2555, Chicago, Illinois 60601; 427 E. Monroe Street, Suite 202, Springfield, Illinois 62701; 150 E. Pleasant Hill Road, Carbondale, Illinois 62901; 124 SW Adams Street, Suite 300, Peoria, Illinois 61602; and 2929 Broadway St, # 7B, Mt. Vernon, Illinois 62864. The Authority's Board consists of 15 members (below), appointed by the Governor, and Ms. Kym Hubbard is the Executive Director.

Following are the Members of the Board of Directors:

1. David C. Gustman, Chairman
2. William Barclay
3. Magda Boyles
4. Ronald E. DeNard
5. James J. Fuentes
6. Michael W. Goetz
7. Dr. Roger D. Herrin
8. Edward H. Leonard Sr.
9. Terrance M. O'Brien
10. Andrew W. Rice
11. Juan B. Rivera
12. Lynn F. Talbot
13. Joseph P. Valenti
14. April Verrett
15. Bradley A. Zeller

Functions

On May 31, 2003 the 93rd General Assembly passed Senate Bill 1075 which became Public Act 93-0205 on July 17, 2003. This act repeals the enabling legislation of the Illinois Health Facilities Authority, the Illinois Educational Facilities Authority, the Illinois Development Finance Authority, the Illinois Rural Bond Bank, and the Illinois Farm Development Authority, effective January 1, 2004 and created the Illinois Finance Authority. The activities of each of the bonding authorities named above were transferred to the Illinois Finance Authority on January 1, 2004.

The Illinois Finance Authority Act (20 ILCS 3501 et. seq.) effective January 1, 2004, created the following objectives for the Authority:

1. Retain jobs in Illinois by assisting existing businesses considering relocation or plant expansion in obtaining low cost financing. This will be accomplished by providing the ability to respond to business situations that might result in job loss within Illinois on a specially tailored basis as required. Although the situations cannot be accurately predicted, it is the objective of the Authority to make its staff and programs available as individual situations develop.

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Compliance Examination
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Authority Functions and Planning Program (Continued)

2. Assist in the creation of new jobs in Illinois by assisting new emerging or expanding businesses in securing project financing. In order to meet this objective, the Authority utilized three direct loan programs and three industrial revenue bond programs.
3. Assist municipalities in their financing of road, water and sewer projects necessary for economic development.
4. Induce enterprises to remain, expand, and locate in Illinois by helping to provide seed and investment capital.
5. Facilitate employee acquisition of individual and manufacturing facilities about to close or relocate outside Illinois.
6. Provide zero-interest loans to municipalities for rehabilitation and improvement of affordable multi-unit housing for low and moderate-income residents.
7. Improve economic conditions of severely depressed municipalities by making grants to support housing, industrial, and commercial projects.
8. Expand their programs to monitor State bonding activity, initiate favorable legislation at the State and federal level, and communicate information to help inform the public.
9. Devote resources to help not-for-profit organizations address housing and service needs of the mentally ill and disabled.
10. Assist in providing low cost capital to for-profit and not-for-profit organizations for the financing of day care facilities.
11. Work with the General Assembly, the Governor, and other agencies to develop an integrated plan for waste management and to develop a funding mechanism to assist communities in financing of day care facilities.
12. Assist women, low income, and minority entrepreneurs, and business owners, and other such individuals possessing the capability to operate successful business concerns and to assist small business concerns in those areas suffering from lack of credit due to economic downturn.

Planning Program

The policy of the Authority is to offer the broadest possible services to the borrower within the State consistent with the Authority's legislation and resources. This commitment is reflected by using the direct placement of the Authority bonds and notes and short-term revenue bonds, by the issuance of tax-exempt commercial paper, through the public sale of tax-exempt long-term bonds, and through the loan participation program.

Employee Compensation Plan

IFA Performance Incentive Compensation Plan

The Authority has adopted an Incentive Based Compensation Plan that rewards its employees for meeting performance objectives, effective July 1, 2004 and portions amended effective July 1, 2006. The purpose of the plan is to reward employees for their contributions toward the Authority achieving business objectives of growth and profitability, and fulfilling its mission, and allowing the Authority to attract and retain staff of the highest possible caliber talent by providing employees with the opportunity to earn total direct compensation that compares favorably to private sector employment.

Funding managers are eligible to receive performance bonuses for sales above targeted baselines. Funding and non-funding employees earn bonuses based on a combination of Authority profitability and targeted individual performance goals as determined by the Executive Director and the Participant's manager. The maximum total annual salary and bonuses that an employee can earn is \$150,000. Total awards under the non-funding employee may not exceed 15% of the Authority's earnings before calculating the awards. For fiscal year 2007, total bonuses paid to 27 employees were \$404,790.

Defined Contribution Deferred Compensation Plan

The Authority created a new defined contribution deferred compensation plan for its employees on October 1, 2006 called the Illinois Finance Authority Individual Account Plan. The purpose of the plan is to provide incentive to employees to save for their retirement and serves as an effective recruiting tool for the Authority.

Under the terms of the plan the Authority will match 200% of employee contributions into their deferred compensation accounts up to 5% of their compensation. In addition, the Authority will make additional discretionary contributions to employee accounts each year. For fiscal year 2007, the Authority contributed an additional 2.5% discretionary contribution into each employee account. Thus for fiscal year 2007, a 5% employee contribution was matched with a 12.5% contribution into the employee accounts by the Authority. Total contributions by the Authority into the plan accounts for fiscal year 2007 were \$523,213 for 28 employees under the new plan and the predecessor plan.

State of Illinois
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Compliance Examination
For the Year Ended June 30, 2007

Average Number of Employees

The following is a summary of the average number of employees employed at the Authority for the year ended June 30, 2007:

	June 30, 2007	June 30, 2006
Executive Director	1	1
Administrative Assistant	5	5
Chief Financial Officer		1
Funding Manager/Client Service Representative	11	12
Accountant/ Finance/ Compliance	3	2
Operations Manager		1
IT Manager/ MIS Administrator	1	1
Public Information/ Marketing Administrator	1	1
Project Manager	1	1
Executive Management Staff	5	
Program Executive		1
Total average number of employees	28	26

State of Illinois
 Illinois Finance Authority

Compliance Examination
 For the Year Ended June 30, 2007

Ten-Year Schedule of Jobs Created or Retained by Loans, Revenue Bonds
 and Investments Made by the Authority (Unaudited)

Fiscal Year	Healthcare Bond Amounts Closed	Jobs Created and/or Retained	Educational Bond Amounts Closed	Jobs Created and/or Retained
2007	\$ 1,925,140,000	684	\$ 582,306,100	679
2006	968,185,000	821	231,410,000	101
2005	937,800,000	229	842,460,000	577
2004	1,819,401,340	790	563,445,000	802
2003	-	-	-	-
2002	-	-	-	-
2001	-	-	-	-
2000	-	-	-	-
1999	-	-	-	-
1998	-	-	-	-

Note: Information for the former Illinois Health Facilities Authority and the Illinois Educational Facilities Authority from 1998 through 2003 is not available.

State of Illinois
 Illinois Finance Authority

Compliance Examination
 For the Year Ended June 30, 2007

Ten-Year Schedule of Jobs Created or Retained by Loans, Revenue Bonds
 and Investments Made by the Authority (Unaudited)

Fiscal Year	Direct/ Participation Loan Amounts Closed	Jobs Created and/or Retained	Industrial Revenue Bond Amounts Closed	Jobs Created and/or Retained
2007	\$ 12,275,734	259	\$ 138,187,750	688
2006	9,019,869	141	25,931,000	118
2005	3,670,727	133	53,218,000	224
2004	1,224,878	82	437,339,500	799
2003	1,342,383	55	92,555,000	170
2002	1,902,658	180	253,645,000	665
2001	2,663,378	332	71,535,000	861
2000	1,928,833	222	59,814,990	837
1999	1,810,157	109	107,010,000	1,123
1998	3,046,549	311	128,057,000	859

Note: Information from 1998 through 2003 were obtained from the former Illinois Development Finance Authority, while 2004 information represents July 1, 2003 through December 31, 2003 obtained from the former Illinois Development Finance Authority and January 1, 2004 through June 30, 2004 provided by Illinois Finance Authority.

State of Illinois
 Illinois Finance Authority

Compliance Examination
 For the Year Ended June 30, 2007

Ten-Year Schedule of Jobs Created or Retained by Loans, Revenue Bonds
 and Investments Made by the Authority (Unaudited)

Fiscal Year	FmHA & E.D.A. Title IX Amounts Closed	Jobs Created and/or Retained	Investments in Venture Capital Companies	Jobs Created and/or Retained
2007	\$ 317,000	12	\$ 600,000	108
2006	109,000	6	875,000	27
2005	-	-	841,697	52
2004	-	-	2,124,098	28
2003	-	-	390,100	20
2002	-	-	1,934,270	85
2001	220,000	22	2,951,000	474
2000	-	-	1,150,000	44
1999	300,000	33	1,217,380	46
1998	300,000	12	1,386,000	40

Note: Information from 1998 through 2003 were obtained from the former Illinois Development Finance Authority, while 2004 information represents July 1, 2003 through December 31, 2003 obtained from the former Illinois Development Finance Authority and January 1, 2004 through June 30, 2004 provided by Illinois Finance Authority.

State of Illinois
 Illinois Finance Authority

Compliance Examination
 For the Year Ended June 30, 2007

Ten-Year Schedule of Jobs Created or Retained by Loans, Revenue Bonds
 and Investments Made by the Authority (Unaudited)

Fiscal Year	Other Projects Closed	Jobs Created and/or Retained	Total Construction Jobs
2007	\$ 315,834,330	621	6,181
2006	294,337,360	341	7,151
2005	220,767,900	447	3,946
2004	-	-	8,147
2003	-	-	826
2002	-	-	579
2001	-	-	1,880
2000	-	-	3,528
1999	-	-	3,063
1998	-	-	-

Note: Information from 1998 through 2003 were obtained from the former Illinois Development Finance Authority, while 2004 information represents July 1, 2003 through December 31, 2003 obtained from the former Illinois Development Finance Authority and January 1, 2004 through June 30, 2004 provided by Illinois Finance Authority.

Summary of Agriculture and Fire Truck Loan Programs

I. Agricultural Development Bonds

Overview:

The Authority had three Agricultural Development Bond Programs in operation, the Beginning Farmer Bond, Agriculture Manufacturing Bond and Beginning Farmer Contract Bond. Through these programs, individuals and businesses ("participants") were screened for eligibility. If they were found to qualify, the Authority, the participants, and the lenders (local banks) entered into loan agreements whereby the proceeds from the issuance of a tax exempt bond were loaned to the participant for prequalified expenditures.

The loan agreements delineated the rights and responsibilities of each of the parties. The banks were considered trustees and were responsible for the receipt of the bond proceeds, payment of qualified expenditures, payment of bond interest and principal and maintenance of necessary records. The Authority had no equity interest in any of the property or equipment, and it was not liable in any way for payment due to bond holders.

This program benefited the participants by allowing them to borrow money at tax-exempt rates, which were generally around 2% below taxable rates.

Interest Rates:

Because interest on the bonds was exempt from Federal income taxes, the interest rates were below the general market. To date, the rates charged ranged from 3.4% to 12%. Some of the bonds had variable rates, while others had fixed rates.

Revenues of the Program:

The Authority's Operating Fund received \$100 for an application fee and at closing, a fee of one and one-half percent of the principal amount of the bond (net of application fee).

Bonds Issued:

A predecessor of the Authority began issuing bonds in December 1982. The following tables detail the bonds issued by purpose and by year.

State of Illinois
Illinois Finance Authority

Compliance Examination
For the Year Ended June 30, 2007

Summary of Agriculture and Fire Truck Loan Programs (Continued)

I. Agricultural Development Bonds (Continued)

Bonds issued and outstanding by purpose as of June 30, 2007:

Purpose	Number	Amount	Percent of Total
Land and depreciable property	224	\$26,650,875	9.6%
Farmland loans	1918	206,692,487	74.8%
New Equipment	484	15,379,768	5.6%
Used Equipment	91	2,460,490	0.9%
New improvements	179	10,558,830	3.8%
Used Improvements	2	46,000	0.0%
Breeding stock	42	971,650	0.3%
Soil conservation-permanent	28	584,763	0.2%
Agri-Business	79	10,386,203	3.8%
Tiling	52	1,549,276	0.6%
New no-till equipment	55	998,271	0.4%
	<u>3154</u>	<u>276,278,613</u>	<u>100.0%</u>
Principal payments to June 30, 2007		<u>195,541,613</u>	
Principal outstanding at June 30, 2007		<u>\$80,737,000</u>	

Bonds issued by year:

Fiscal Year Ended June 30*	Number	Amount
1983	322	\$ 13,580,269
1984	620	32,518,257
1985	459	29,628,084
1986	221	18,414,717
1987	55	4,554,117
1988	69	6,212,934
1989	52	4,078,217
1990	75	7,939,779
1991	90	9,018,835
1992	96	9,594,370
1994	101	11,835,969
1995	81	8,236,393
1996	99	11,899,866
1997	108	14,262,251
1998	118	14,138,025
1999	78	9,284,274
2000	92	12,085,703
2001	98	11,756,702
2002	63	8,639,030
2003	83	12,428,828
2004	49	6,565,001
2005	50	7,607,515
2006	24	3,488,437
2007	51	8,511,040
	<u>3154</u>	<u>\$ 276,278,613</u>

- - Information for years prior to 2004 obtained from former Illinois Farm Development Authority.

Summary of Agriculture and Fire Truck Loan Programs (Continued)

II. State Guarantee Program For Restructuring Agricultural Debt

Overview:

The Loan Guarantee Program was authorized by Legislation and passed in November 1985. It was designed to consolidate and spread out farmer's existing debt over a longer period of time at a reduced interest rate. This was accomplished by having the State of Illinois guarantee repayment of 85% of the amounts loaned under this program. Qualifications under the program dictated that a farmer must be credit-worthy, must have a debt-asset ratio of between 40% and 65%, must have sufficient collateral to secure the State guarantee and must be a principal operator of a farm.

Loans were made through participating banks that were responsible for processing a farmer's application and for servicing the loan once it was approved by the Authority. These lenders were liable for the first 15% of loss on any loan. Loans could not exceed \$500,000. Repayment schedules were tailored to suit the borrowers' collateral and financial position with a maximum of a thirty-year amortized payment schedule. The procedures for extending a loan were similar to the procedures for taking out a loan. Terms of the loan could be altered during the extension process. All extended loans must have been approved by the Authority's Board. Interest rates were adjusted annually and must have been less than the market rate of interest generally available to the borrower.

Amount of Loans:

During the year ended June 30, 2007, nine (9) loans were approved totaling \$1,653,096. New loan amounts ranged from \$66,000 to \$500,000 with the average being \$227,819. Total outstanding loans at June 30, 2007, amounted to \$33,886,977. There was a statutory limit of \$160,000,000 for this guarantee program. A breakdown of loans issued by county immediately follows this section.

Revenues and Expenses of the Program:

The Authority's Operating Fund received \$300 for an application fee and at closing, a fee of one-half percent of the principal amount of the bond (net of application fee). The Authority also received an annual fee of one-quarter percent on the outstanding principal amount of these loans.

The expenses incurred in the program were administrative costs that were paid out of the Authority's Operating Fund.

Benefits to the Participants and Estimated Costs to the State:

Projected benefits included lower interest rates on loans and a more readily available source of long-term financing. These benefits lowered operating costs to the farmer, as well as provided stability to his operations.

Summary of Agriculture and Fire Truck Loan Programs (Continued)

II. State Guarantee Program For Restructuring Agricultural Debt

Benefits to the Participants and Estimated Costs to the State (Continued):

Financial activities of this Fund are detailed in the Illinois Agricultural Loan Guarantee Fund. This program was originally funded in fiscal year 1986 by capital contributions from the General Revenue Fund and by transfers from the Farm Emergency Assistance Fund, totaling \$14,063,009. Operating revenues and operating expenses were recorded in the Authority's Operating Fund.

III. Farmer and Agri-Business Loan Guarantee Program

Overview:

This Loan Guarantee Program was authorized by legislation passed in November 1985. Its guarantee was similar to the State Guarantee Program for Restructuring Agricultural Debt. Its target population was both agri-business and individual farmers. Its purpose was to encourage diversification and vertical integration of Illinois agriculture. The State issued an 85% guarantee for farmers/agri-business and lenders who met the qualifications of the program. Loans were made through participating banks that were responsible for processing a farmer's application and for servicing the loan once it was approved by the Authority. These lenders were liable for the first 15% of loss on any loan. There was no maximum loan amount for agri-business loans but loans shall not exceed \$500,000 per farmer or an amount as determined by the Authority on a case-by-case basis for an agribusiness. Loans must have been repaid within fifteen years. Interest rates were adjusted annually and must have been less than the market rate of interest generally available to the borrower.

Amount of Loans:

During the year ended June 30, 2007, one (1) loan was approved totaling \$1,649,330. The amount of loans outstanding as of June 30, 2007 was \$15,704,865. A breakdown of loans issued by county immediately follows this section.

Revenues and Expenses of the Program:

The Authority's Operating Fund received \$300 for an application fee and at closing, a fee of one-half percent of the principal amount of the loan (net of the application fee). The Authority also received an annual fee of one-quarter percent on the outstanding principal amount of these loans.

The program's administrative costs were paid out of the Authority's Operating Fund.

Benefits to the Participants and Estimated Costs to the State:

Benefits to the participants were the same as the Illinois Agricultural Loan Guarantee Program. Additionally, this program sought to diversify the Illinois farm economy.

Summary of Agriculture and Fire Truck Loan Programs (Continued)

III. Farmer and Agri-Business Loan Guarantee Program (Continued)

Enterprise Fund:

Financial activities of this Fund were accounted for in the Farmer and Agri-Business Loan Guarantee Fund. This program, the Young Farmer Loan Guarantee Program and the Specialized Livestock Loan Guarantee Program, were funded by an operating transfer from the Farm Emergency Assistance Fund totaling \$8,110,000 during fiscal year 1987. These monies were to secure State guarantees issued under these three programs. Operating revenues and operating expenses were reduced in the Authority's Operating Fund.

IV. Young Farmer Loan Guarantee Program

Overview:

During fiscal year 1993 the Young Farmer Loan Guarantee Program was authorized by the Legislature.

The Young Farmer Loan Guarantee Program was a guarantee program designed to enhance credit availability for younger farmers who were purchasing capital assets. Loan funds could be used for new purchases of capital assets such as land, buildings, machinery, equipment, breeding livestock, soil and water conservation projects, etc. In some cases, the loan proceeds could be used to refinance existing debt as needed to improve lien positions.

All Young Farmer Loans Guarantee Program loans were made through conventional lenders. The Authority provided an 85% guarantee of principal and interest on the loan made to a qualified borrower by a qualified lender. The lender, in consideration for the 85% guarantee, agreed to charge an interest rate lower than conventional. This rate could be fixed or variable as agreed between the applicant and lender.

The applicant must have been able to provide sufficient collateral to adequately secure the Young Farmer Loan Guarantee Program loan. The maximum term for a Young Farmer Loan Guarantee Program loan was fifteen years. Loans collateralized by real estate could be amortized up to twenty-five years with a fifteen year balloon. Loans collateralized by depreciable property were amortized over a shorter period.

The eligible applicant must:

- Have been a resident of the State of Illinois
- Have been at least eighteen years of age
- Have been the principal operator of a farm who derived or would derive at least 50% of annual gross income from farming
- Have had a debt to asset ratio of between 40% and 70% after purchase of the capital item
- Have had a net worth in excess of \$10,000
- The borrower must have provided collateral sufficient to have secured the loan and kept the loan collateral through its term. The borrower must have also demonstrated the ability to have adequately serviced the proposed debt.

Summary of Agriculture and Fire Truck Loan Programs (Continued)

IV. Young Farmer Loan Guarantee Program (Continued)

The maximum loan per applicant was \$500,000. An eligible applicant could use the program more than once provided that the totals of the original loan amounts did not exceed \$500,000. Any losses incurred under the State guarantees were paid from the Illinois Farmer and Agri-Business Loan Guarantee Fund.

Amount of Loans:

During the year ended June 30, 2007, one (1) was approved totaling \$250,000. The amount of loans outstanding as of June 30, 2007 was \$2,732,252. A breakdown of loans issued by county immediately follows this section.

Revenues and Expenses of the Program:

A nonrefundable application fee of \$300 must have been paid to the Authority at the time of application. The applicant paid a fee of 1% of the loan amount at closing. This closing fee was the net of the \$300 application fee; however, the minimum fee was \$300. The Authority received $\frac{3}{4}\%$ and the lender received $\frac{1}{4}\%$. The lender could charge no additional fees or points other than the fee received at closing. The applicant was liable for normal and customary attorney's fees abstracting costs, filing fees, appraisal fees and other costs of the loan. The lender agreed to pay the Authority an annual administrative fee equal to $\frac{1}{4}\%$ of the outstanding balance of the Young Farmer Loan Guarantee Program loan on the payment date. The fee was not passed on to the borrower.

The program's administrative costs were paid out of the Authority's Operating Fund.

Benefits to the Participants and Estimated Costs to the State:

Benefits included lower interest rates on loans and a more readily available source of long term financing. These benefits lowered costs to the farmer, as well as provided stability to his operations.

V. Specialized Livestock Loan Guarantee Program

Overview:

This Loan Guarantee Program was authorized by legislation passed in July 1996 and is similar to the Farmers and Agri-Business Loan Guarantee Program. Its target population was both agri-business and individual farmers and was designed to encourage the development of the Illinois livestock industry, by spreading out over a longer term at a reduced interest rate. The State issued an 85% guarantee for farmers/agri-business and lenders who met the qualifications of the program. Loans were made through participating banks that were responsible for processing a farmer's application and for servicing the loan once it was approved by the Authority. These lenders were liable for the first 15% of loss on any loan. Loans could not exceed a maximum of \$1,000,000 per farmer. Loans must have been repaid within fifteen years. Interest rates were adjusted annually and must have been less than the market rate of interest generally available to the borrower.

Any losses incurred under State guarantees were paid from the Illinois Farmer and Agri-Business Loan Guarantee Fund.

Summary of Agriculture and Fire Truck Loan Programs (Continued)

V. Specialized Livestock Loan Guarantee Program (Continued)

The total outstanding loan balance under the Young Farmer Loan Guarantee Program, Farmer and Agri-Business Loan Guarantee Program and the Specialized Livestock Loan Guarantee Program could not exceed \$75 million. The total outstanding loan balance for these three programs at June 30, 2007 was \$35,129,819.

Amount of Loans:

During the year ended June 30, 2007, one (1) loan was approved totaling \$518,000. The amount of loans outstanding as of June 30, 2007 was \$16,692,702. A breakdown of loans issued by county immediately follows this section.

Revenues and Expenses of the Program:

The Authority's Operating Fund received \$300 for an application fee and at closing, a fee of ¾% of the principal amount of the loan (net of the application fee). The Authority also received an annual fee of one-quarter percent on the outstanding principal amount of these loans.

The program's administrative costs were paid out of the Authority's Operating Fund.

VI. Fire Truck Revolving Loan Program

The fire truck revolving loan program was authorized by Public Act 94-221 as a continuation and re-enactment of the fire truck revolving loan program originally enacted by Public Act 93-35, and later repealed by Public Act 93-205. The loan program provides zero-interest loans for the purchase of fire trucks by fire departments, fire protection districts, or township fire departments based on need, as determined by the State Fire Marshal.

Under the terms of the program the loans may not exceed \$250,000 to any fire department or district. The repayment period for each loan may not exceed 20 years and requires a minimum repayment of 5% of the principal amount borrowed each year.

The loan funds are made out of the fire truck revolving loan fund, a special fund in the State Treasury. The amounts of loans outstanding as of June 30, 2007 were \$8,247,715. There were no new loans issued during the year ended June 30, 2007.

State of Illinois
 Illinois Finance Authority

Compliance Examination
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Historical Summary of Agricultural Loans Issued by Program by County
 June 30, 2007 (Unaudited)

Program:	Agricultural Development Bonds (Issued)		State Guarantee Program of Restructuring Agricultural Debt Loans (Issued)		Farmer and Agri-Business Loan Guarantee Program Loans (Issued)		Young Farmer Loan Guarantee Program Loans (Issued)		Specialized Livestock Loan Guarantee Program Loans (Issued)	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount
Adams	72	\$ 6,235,868	27	\$ 4,304,838	1	\$ 36,000	4	\$ 526,000	3	\$ 1,917,000
Alexander	-	-	1	180,000						
Bond	57	4,403,668	10	1,532,000			1	192,000	2	1,184,000
Boone	9	1,108,100	5	1,443,000						
Brown	2	160,000	14	3,436,000					1	840,000
Bureau	133	10,427,607	21	4,422,014			2	356,000	4	1,246,000
Calhoun	2	181,000	5	936,110			2	340,000		
Carroll	46	5,243,655	7	1,608,000					3	1,144,000
Cass	10	1,216,276	7	1,479,043	2	2,244,330			2	1,175,000
Champaign	65	4,248,464	22	3,831,011	1	362,000				
Christian	81	7,757,292	11	2,611,500			3	445,000	2	1,572,000
Clark	9	497,000	12	1,718,000						
Clay	45	2,762,679	6	1,079,000			1	85,000	1	780,000
Clinton	65	5,844,042	10	2,541,101	5	10,990,000	2	77,000	5	2,670,000

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Compliance Examination

For the Year Ended June 30, 2007

Historical Summary of Agricultural Loans Issued by Program by County (Continued)

June 30, 2007 - Unaudited

Program:	Agricultural Development Bonds (Issued)		State Guarantee Program of Restructuring Agricultural Debt Loans (Issued)		Farmer and Agri-Business Loan Guarantee Program Loans (Issued)		Young Farmer Loan Guarantee Program Loans (Issued)		Specialized Livestock Loan Guarantee Program Loans (Issued)	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount
County										
Coles	20	\$ 1,347,944	14	\$ 2,317,000						
Cook										
Crawford	39	2,588,455	33	8,189,625	6	2,676,000	3	51,500	4	501,500
Cumberland	17	1,347,788	3	606,000	1	150,000				
DeKalb	61	5,260,839	36	10,057,000			1	40,000	8	4,032,000
DeWitt	14	685,675	3	940,000	1	225,000				
Douglas	43	2,892,011	17	2,712,750			1	124,000	1	700,000
Edgar	40	3,562,243	28	5,770,164	1	625,000	4	513,000	1	75,000
Edwards	10	493,100	1	135,000						
Effingham	35	3,350,000	1	85,000						
Fayette	40	2,753,230	8	2,060,000						
Ford	48	5,382,000	8	1,440,000			1	250,000	3	1,925,000
Franklin	47	2,729,365	16	3,892,000	2	3,695,000				
Fulton	30	3,796,600	13	2,211,900	2	172,000			1	88,000

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For the Year Ended June 30, 2007

Historical Summary of Agricultural Loans Issued by Program by County (Continued)
June 30, 2007 - Unaudited

Program:	Agricultural Development Bonds (Issued)		State Guarantee Program of Restructuring Agricultural Debt Loans (Issued)		Farmer and Agri-Business Loan Guarantee Program Loans (Issued)		Young Farmer Loan Guarantee Program Loans (Issued)		Specialized Livestock Loan Guarantee Program Loans (Issued)	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount
County										
Gallatin	10	\$ 1,643,750	6	\$ 1,298,000	1	\$ 450,000	2	\$ 650,000		
Greene	1	250,000	10	1,896,000						
Grundy	11	903,375	11	2,408,000	1	160,000				
Hamilton	39	3,540,050	2	840,000			1	171,000	2	1,280,000
Hancock	37	3,511,406	38	5,914,888					4	782,000
Hardin					2	1,900,000				
Henderson	27	3,062,480	17	3,273,500	1	45,000	2	262,000	5	2,015,000
Henry	40	4,784,228	28	4,695,000			1	57,000	3	1,140,000
Iroquois	97	7,966,216	13	2,733,000					1	170,000
Jackson	5	467,780	7	1,246,000			1	71,000		
Jasper	79	4,717,387	44	8,122,200			2	240,000	12	2,155,000
Jefferson	18	1,036,800	10	1,787,000			1	40,000	1	790,000
Jersey	4	433,500	1	300,000						
JoDaviess	9	716,561	26	6,710,547	2	907,000			3	1,180,000

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For the Year Ended June 30, 2007

Historical Summary of Agricultural Loans Issued by Program by County (Continued)
June 30, 2007 - Unaudited

Program:	Agricultural Development Bonds (Issued)		State Guarantee Program of Restructuring Agricultural Debt Loans (Issued)		Farmer and Agri-Business Loan Guarantee Program Loans (Issued)		Young Farmer Loan Guarantee Program Loans (Issued)		Specialized Livestock Loan Guarantee Program Loans (Issued)	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount
County	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
Johnson	4	\$ 413,650	7	\$ 1,990,000						
Kane	4	351,200	18	4,616,000					3	1,915,000
Kankakee	10	1,269,270	2	438,000			1	46,000		
Kendall	3	273,000	9	1,642,000						
Knox	35	3,506,554	15	2,979,460	1	65,000	2	232,000	2	434,000
Lake			-							
LaSalle	104	10,147,730	33	6,571,300			1	54,000	1	1,000,000
Lawrence	46	3,225,338	9	1,945,500					3	3,000,000
Lee	57	6,577,792	22	5,599,000			1	110,000	1	455,000
Livingston	142	13,278,941	24	6,176,210	9	7,939,000	2	388,000	4	1,230,000
Logan	38	2,376,460	13	2,200,000			2	190,000	1	520,000
Macon	11	1,035,000	5	700,000			1	75,000		
Macoupin	30	3,692,120	22	4,453,000			3	416,000	6	3,400,000
Madison	21	2,326,940	16	4,359,000			9	1,756,000		

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For the Year Ended June 30, 2007

Historical Summary of Agricultural Loans Issued by Program by County (Continued)
June 30, 2007 - Unaudited

Program:	Agricultural Development Bonds (Issued)		State Guarantee Program of Restructuring Agricultural Debt Loans (Issued)		Farmer and Agri-Business Loan Guarantee Program Loans (Issued)		Young Farmer Loan Guarantee Program Loans (Issued)		Specialized Livestock Loan Guarantee Program Loans (Issued)	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount
Marion	11	\$ 860,510	31	\$ 6,022,160	1	\$ 3,200,000	3	\$ 640,000	2	\$ 507,000
Marshall	24	2,029,081	8	1,611,000			3	513,000		
Mason	54	4,357,809	9	2,212,702	1	137,000				
Massac	2	30,000	2	435,000						
McDonough	11	1,028,550	14	3,116,000	1	300,000	1	87,000	1	520,000
McHenry	3	440,000	8	2,060,000			1	190,000	1	69,000
McLean	112	8,248,285	32	5,371,734			7	1,015,000	2	1,250,000
Menard	14	1,097,965	16	3,384,000			1	72,000		
Mercer	28	3,315,861	17	3,304,600			7	707,000	10	5,444,800
Monroe	35	3,880,075	26	5,758,707					1	51,000
Montgomery	75	9,268,040	15	3,458,577					5	1,952,000
Morgan	14	1,193,830	25	5,433,319	1	1,000,000	1	194,000	1	668,000
Moultrie	30	1,627,250	6	995,500	1	40,000			1	250,000
Ogle	70	6,780,047	10	2,335,000			4	751,000	2	375,000

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Compliance Examination
For the Year Ended June 30, 2007

Historical Summary of Agricultural Loans Issued by Program by County (Continued)
 June 30, 2007 - Unaudited

Program:	Agricultural Development Bonds (Issued)		State Guarantee Program of Restructuring Agricultural Debt Loans (Issued)		Farmer and Agri-Business Loan Guarantee Program Loans (Issued)		Young Farmer Loan Guarantee Program Loans (Issued)		Specialized Livestock Loan Guarantee Program Loans (Issued)	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount
Peoria	23	\$ 2,310,520	25	\$ 6,037,000			2	\$ 322,000	1	\$ 150,000
Perry	10	636,256	19	3,672,900	3	1,020,000				
Piatt	36	1,702,807	9	1,638,000						
Pike	6	945,111	47	10,167,519	1	250,000	9	1,814,000	7	4,990,000
Pope			1	500,000						
Pulaski			3	940,000						
Putnam	11	1,222,859	5	568,681					1	615,000
Randolph	6	552,400	14	2,583,010			2	165,000	2	380,000
Richland	32	1,724,704	5	1,523,000	8	2,353,000	2	285,000	2	605,000
Rock Island	6	1,046,623	6	1,282,000					3	1,285,000
Saline	11	677,835	3	1,082,000			1	150,000		
Sangamon	35	2,485,315	41	7,679,043			1	300,000	2	925,000
Schuyler	8	698,780	-							
Scott	6	783,300	8	1,379,538			1	181,000		

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Compliance Examination
 For the Year Ended June 30, 2007

Historical Summary of Agricultural Loans Issued by Program by County (Continued)
 June 30, 2007 - Unaudited

Program:	Agricultural Development Bonds (Issued)		State Guarantee Program of Restructuring Agricultural Debt Loans (Issued)		Farmer and Agri-Business Loan Guarantee Program Loans (Issued)		Young Farmer Loan Guarantee Program Loans (Issued)		Specialized Livestock Loan Guarantee Program Loans (Issued)	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount
County										
Shelby	74	\$ 5,362,279	18	\$ 3,770,267	1	\$ 47,000	1	\$ 81,000		
St. Clair	29	2,163,180	5	1,156,000	1	40,000				
Stark	21	2,376,200	15	3,612,000			1	300,000		
Stephenson	30	2,729,210	28	6,304,498	13	17,184,495	2	176,000	4	2,317,000
Tazewell	79	6,365,315	23	4,515,049			1	255,000	1	218,000
Union	21	1,131,036	2	800,000	1	860,000				
Vermillion	29	3,380,140	26	3,978,640	2	198,000	1	89,000		
Wabash	5	181,300	3	676,000						
Warren	49	5,780,246	17	3,507,000	1	4,000,000	3	589,000	8	3,845,000
Washington	35	2,203,570	10	2,045,000					2	1,250,000
Wayne	16	1,430,125	4	1,008,000	1	2,651,000			1	643,000
White	1	30,000	5	1,442,500						
Whiteside	91	10,112,345	27	5,338,000					6	2,552,000
Will	17	1,307,940	1	300,000						

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 For the Year Ended June 30, 2007

Historical Summary of Agricultural Loans Issued by Program by County (Continued)

June 30, 2007 - Unaudited

Program:	Agricultural Development Bonds (Issued)		State Guarantee Program of Restructuring Agricultural Debt Loans (Issued)		Farmer and Agri-Business Loan Guarantee Program Loans (Issued)		Young Farmer Loan Guarantee Program Loans (Issued)		Specialized Livestock Loan Guarantee Program Loans (Issued)	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount
Williamson	2	\$ 132,000	-		1	\$ 1,750,000				
Winnebago	9	944,750	8	1,343,000	2	305,412	1	500,000		
Woodford	51	3,922,735	18	3,011,810	2	635,000	1	100,000	3	227,000
	<u>3,154</u>	<u>\$ 276,278,613</u>	<u>1,362</u>	<u>\$ 283,790,415</u>	<u>81</u>	<u>\$ 68,612,237</u>	<u>114</u>	<u>\$ 17,233,500</u>	<u>162</u>	<u>\$ 72,404,300</u>

State of Illinois
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Service Efforts and Accomplishments (Unaudited)

Issuance Performance

Total number of new issues		120
New issue value	\$	1,900,530,280
Application fees	\$	273,400
Administrative service fees	\$	6,632,365

Operating Performance

Total number of issues		1,058
Total outstanding issue value	\$	21,638,350,000
Annual fees	\$	1,154,011
Annual fees/total outstanding issue value		0.0053%
Total expenses	\$	10,749,742
Total expenses/total outstanding issue value		0.0497%
Total expenses/total number of issues	\$	10,160